Emerging Markets Finance and Trade ›
Volume 52, 2016 - Issue 9

Financial Reforms and Performance in Emerging Market Economies

An Investigation of Global and Regional Integration of ASEAN Economic Community Stock Market: Dynamic Risk Decomposition Approach

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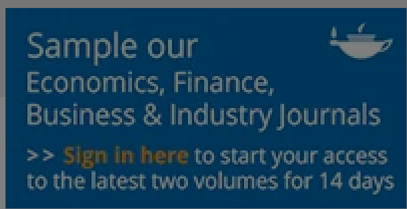
Pages 2069-2086 | Published online: 02 Aug 2016

Cite this article https://doi.org/10.1080/1540496X.2016.1156528 Check for updates



ABSTR

This arti ... een the ASEAN E ... d the United States. ... varying market ... he AEC is more ... arket. Second, ... ic economic situation ... AEC tempora ... unsystematic risk by a

KEY WORDS: AEC diversification dynamic risk decomposition market integration

Notes

[1] The ASEAN is a political and economic organization of ten countries located in Southeast Asia, which was formed on August 8th 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand. Since then, membership has expanded to include Brunei, Burma (Myanmar), Cambodia, Laos, and Vietnam. As of 2014, the aggregated GDPs of NAFTA and EU are $20.5 and $18.5 trillion USD, respectively.

[2] For the effect of common market on the regional economy, see Pagano (1993), Akdogan (1996, 1997), Levine and Zervos (1998), Levine (2002), Prasad et al. (2003), Baele et al. (2004), and Bartram, Taylor, and Wang (2007).

[3] See Ba (2003).

[4] See Alexander (1994).

[5] We selected the order at 2 based on Portmanteau Q test. It is well known that the lag order 2 best explains the dynamic structure of multivariate time series in most cases (Juselius 2006). A univariate GARCH (1,1) model is used for variance equation since the model was not converged with the other lag lengths and/or with the multivariate model.

[6] We used World Bank, Yahoo/Finance, Datastream, and Bloomberg as the source of the
data for … by the yearly
average … ghed data.
Consequ… ator of daily
weighte… AN countries
to simul… em of
exclu… Myanmar
and … hort, and
the num… . For
Vietnam… Malaysia, of
Thailand… and about
1.5 perc…

[7] We performed the same test with different lags and without trends, and the results do not lead to any different conclusions. We employed automatic lag length selection using a Schwarz Information Criterion (SIC), and the maximum lag length is automatically determined by the lag length parameter methods proposed by Ng and Perron (2001). For the PP test, we used Newey-West (1994) data-based automatic bandwidth parameter methods for the kernel estimation in order to select the bandwidth.

[8] T-GARCH or E-GARCH can be used for non-normal data series. However, Cappiello, Engle, and Sheppard (2006) suggest that any univariate GARCH process that is covariance stationary and assumes normally distributed errors (irrespective of the true error distribution) can be used to model the variances in DCC model and, therefore, the assumption of conditional normality is not crucial. In many cases, the basic GARCH conditional variance Equation (3) under normality provides a reasonably good model for analyzing financial time series and estimating conditional volatility (Zivot 2009). Nonetheless, we tried various GARCH model including multivariate GARCH model. However, these models failed to converge for the data series of this article.

[9] See Bekaert and Harvey (1995), Barari (2004), Ratanapakorn and Sharma (2002), Phylaktis and Ravazzolo (2005).

[10] Empirical evidence of the biased optimal portfolio is well documented in the following studies: Michaud (1989), Best and Grauer (1991), Chopra and Ziemba (1993), Cha and Jithendranathan (2009), and Gupta and Donleavy (2009).